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THE DIRECTOR OF CENTRAL INTELLIGENCE

WASHINGTON, D.C. 20505

National Intelligence Council

NIC #10168-82
15 December 1982

MEMORANDUM FOR: Director of Central Intelligence

FROM: Maurice C. Ernst
NIO for Economics

SUBJECT: Cabinet Luncheon Meeting on US Trade Policy

1. The Cabinet luncheon meeting scheduled for Friday, 17 December, is to consider several aspects of US trade policy: export policy; export financing; replacing the DISC; antitrust barriers; industrial adjustment; negotiating authority; and renewal of GSP. A set of policy papers, together with policy options, on each of these issues is attached.

2. The review of US trade policy instruments launched by Ambassador Brock two months ago is designed, at least in part, to head off severely protective Congressional legislation by presenting some positive steps to stimulate exports, improve US competitiveness, and adjust to increased imports. The trade policy issues in question cut into the area of industrial policy.

3. The policy issues are predominantly domestic and we have not been involved in the preparatory work. The following appear to be some highlights:

Export Financing. The recent decline in market interest rates has reduced foreign interest subsidies, but these may increase again in the future. The policy questions concern (1) The size of the EXIM bank budget, and (2) whether this budget should emphasize direct financing, to enable EXIM to compete with foreign interest subsidies in the future, or guarantees on insurance, which are most useful at present.

Industrial Revenue Bonds for Exports. Whether to seek changes in the revenue code to allow the states to use tax exempt bonds to do their own export financing.

Industrial Adjustment. Should the US Government develop new programs to help make some US industries competitive (e.g., R&D and investment finance), as an alternative to import relief. No specifics proposed.

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Trade Adjustment Assistance for Workers. Present program due to expire. Key questions are: (1) Should there be any program? (2) Should a program be renewed as part of our trade policy? (3) Should we develop a program aimed more generally at structural unemployment but not specifically related to trade?

Trade Adjustment Assistance for Firms. The present program is expiring; should a new program be developed as an alternative to protectionism?

Anti-trust Barriers--Two questions:

Question 1: Should the USG try to amend the anti-trust laws to encourage joint R&D by US companies? US market share for high tech industries (aerospace, computers, electronic components) has declined. Other governments encourage research [redacted] 25X1
Some, but not complete, relief for US firms is possible without legislation.

Question 2: Whether to revise the method by which market share is defined in anti-trust cases in order to reflect world markets, thereby enhancing the competitive position of US firms?

New Negotiating Authority. USG needs new negotiating authority for multilateral reductions in tariffs and NTBs. Also, GSP expires in 1985 and the President has pledged continuation at CANCUN and elsewhere. Most other industrial countries' programs are set for a longer period.

4. Although CIA has few specific contributions to make on these policy issues, we do contribute to the assessment of the economic and technological forces which are creating severe trade problems. These main forces appear to be:

- The continuing economic recession, which is causing severe unemployment in the US and abroad--with high unemployment expected to persist long after economic recovery gets under way;
- The very strong dollar, which is badly hurting the international competitiveness of US products, and the impact of which on US trade will be felt a year or two after the dollar has weakened;
- Powerful long-term structural trends, especially the rapid development of high technology industries in Japan aided by the government, and the worldwide weakening of demand for

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the products of basic industries, which are raising new policy issues and causing substantial structural unemployment;

- o Subsidization of exports by foreign governments to the disadvantage of US exporters, especially agricultural products by the European Community, and some big-ticket high technology products like aircraft.

4. CIA and the Intelligence Community have dealt with all these issues to one degree or another. The most comprehensive recent intelligence study dealing with trade issues is the NIE on US-Japan economic relations, which has just been reviewed by the NFIB Reps (copy attached). The principal CIA research contribution has been on foreign, [redacted] industrial policy and development of high technology industries (see attached reports). Other papers concern foreign subsidization of aircraft sales and import controls on automobiles. 25X1

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[redacted]

Maurice C. Ernst

Attachments,
As stated

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New Agenda Items

Agricultural Export Subsidies

Proposal is to make available the means, in the form of funds and surplus agricultural commodities, for retaliating against EC agricultural subsidies. The existence of the program would be used as a bargaining device in coming negotiations with the EC.

Industries/Government Consultation on Innovation

Proposal is to establish a Council on Industrial Competitiveness, made up of senior government and private representatives, to assess problems of industrial innovation in the US and recommend stimulative measures.

Antitrust

Proposal is to establish an interagency task force to identify antitrust barriers to the competitiveness of US business and recommend policy changes.

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